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Summary of Consolidated Financial Results for the Nine Months Ended February 20, 2020 [Japanese GAAP] **

March 17, 2020

Company name: ASKUL Corporation

Stock exchange listing: Tokyo

Code number: 2678

URL: <https://www.askul.co.jp/kaisya/ir/>

Representative: Akira Yoshioka

President and chief executive officer

Contact: Tsuguhiro Tamai

Executive officer and chief financial officer

Phone: 03-4330-5130

Scheduled date of filing quarterly securities report: March 27, 2020

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down)

1. Consolidated Financial Results for the Nine Months Ended February 20, 2020 (May 21, 2019 to February 20, 2020)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended February 20, 2020	299,439	3.8	6,335	160.5	6,248	169.0	4,116	268.9
February 20, 2019	288,508	9.3	2,431	(38.2)	2,322	(37.5)	1,115	(76.0)

(Note) Comprehensive income: Nine months ended February 20, 2020: ¥ 4,119 million [251.7%]
 Nine months ended February 20, 2019: ¥ 1,171 million [(75.0) %]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended February 20, 2020	80.68	80.34
February 20, 2019	21.88	21.87

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
As of February 20, 2020	173,818	51,194	29.3
May 20, 2019	169,112	48,631	28.6

(Reference) Equity: As of February 20, 2020: ¥ 50,862 million
 As of May 20, 2019: ¥ 48,392 million

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2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended May 20, 2019	-	18.00	-	18.00	36.00
Fiscal year ending May 20, 2020	-	19.00	-		
Fiscal year ending May 20, 2020 (Forecast)				19.00	38.00

(Note) Revision to the forecast for dividends announced most recently: No

(Note) Breakdown of the 3rd quarter dividend for the fiscal year ending May 20, 2020 :

Commemorative dividend - yen
Special dividend - yen

3. Consolidated Financial Results Forecast for the Fiscal Year Ending May 20, 2020(May 21, 2019 to May 20, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	404,000	4.3	8,800	94.7	8,600	94.6	5,400	-	105.83

(Note) Revision to the financial results forecast announced most recently: No

* Notes:

(1) Changes in significant subsidiaries during the nine months ended February 20, 2020

(changes in specified subsidiaries resulting in changes in scope of consolidation): No

New - (Company name:)
Exclusion: - (Company name:)

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: Yes

4) Retrospective restatement: No

(4) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

February 20, 2020: 55,259,400 shares

May 20, 2019: 55,259,400 shares

2) Total number of treasury shares at the end of the period:

February 20, 2020: 4,224,022 shares

May 20, 2019: 4,235,634 shares

3) Average number of shares during the period:

Nine months ended February 20, 2020: 51,026,883 shares

Nine months ended February 20, 2019: 51,004,809 shares

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** This Summary of Consolidated Financial Results is not subject to quarterly review.

*** Notes for using forecasted information and others

Earnings forecasts and other forward-looking statements contained in this document are based on the information ASKUL has obtained to date and on certain assumptions it considers reasonable. As such, these forecasts and statements are not intended as a commitment by the Company to achieve them. Note also that actual results and other future events may differ materially from these forecasts and statements due to a variety of factors.

For the assumptions on which earnings forecasts are based and notes and information on the use of earnings forecasts, see "1. Qualitative Information on Financial Results (3) Explanation of Consolidated Forecasts and Other Forward-Looking Information" on Page 4 of Attached Materials.

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1. Qualitative Information on Financial Results

(1) Explanation of Operating Results

During the period under review (May 21, 2019, through February 20, 2020), Japan's economy remained on a moderate recovery path, with continued improvement in the employment environment.

On the other hand, the outlook for the economy has continued to be clouded by uncertainty, with unpredictable movements in stock prices, currency exchange rates, and others, due to continued U.S.-China trade friction and unstable political circumstances overseas, combined with concerns about the outbreak of the novel coronavirus.

In the e-commerce market, in which the Group operates, delivery charges have remained at a high level due to a shortage of delivery drivers and other factors, which has had a considerable impact on the business of E-commerce companies.

Under these circumstances, consolidated net sales in the B-to-B business of the mainstay E-commerce business increased steadily by 5.4% year-on-year, with both the number of users and purchases per customer continuing to increase to shake off the concerns about downturns after the consumption tax hike.

In the B-to-C business, sales declined 5.6% year-on-year. This is attributable to a decrease in the sales volume of purchase by case units, resulting from the change in the sales method for items in the beverage category, which have a high sales composition ratio. Meanwhile, profit improvement in the LOHACO business, for which the Group has assigned top priority, is progressing as planned. In addition, the revision of the minimum order amounts to qualify for no basic delivery fees for purchases in the LOHACO marketplace (hereinafter "free shipping charge") in January 2019, and the launch of the one-box eco service (note 1), etc., in July 2019, have led to an increase in the number of items purchased by customers and a notable decrease in the ratio of delivery charges to net sales, contributing significantly to the improvement of business performance.

The ASKUL Group has taken ASKUL Miyoshi Center on lease as a new logistics facility since February 2020. The Group will use the facility as a Transfer Center for inventories in the B-to-B Business, as well as a business base for the logistics business in the East Japan area, and is preparing for its full-scale operation start in September 2020 or thereafter.

As a consequence, the ASKUL Group posted net sales of 299,439 million yen, a 3.8% increase year-on-year, operating profit of 6,335 million yen, a 160.5% increase year-on-year owing to the improvement of profit in the LOHACO business, and ordinary profit of 6,248 million yen, a 169.0% increase year-on-year. Profit attributable to owners of parent came to 4,116 million yen, a 268.9% increase year-on-year.

Operating results by segment are outlined below.

<E-commerce business>

In the B-to-B business, the mainstay business of the Group, E-commerce strategies toward further growth have been steadily implemented. Specifically, the Group implemented measures to have its website ranked high when customers with no purchase history with the Group searches for products on search engines (search engine optimization, or SEO), and to strengthen web advertising, thereby succeeding in increasing the use of the Group's services by new customers. In addition, the Group took measures such as advancing its website's search function with the application of big data and artificial intelligence (AI) and adding an image search function to allow users to search for products they want even if they do not know the product name. As a result, both the number of items purchased by customers who have used the Group's services and the average purchase per customer increased.

In terms of product categories, living supplies, including daily consumable goods and disposable paper, which are used frequently in stores, etc., and beverages consumed in offices, were the major driving forces behind the sales growth, while sales of products used in health and nursing care facilities, a focus area, and MRO supplies (note 2) that include long-tail products also expanded steadily. For products used in health and nursing care facilities and MRO supplies, the ASKUL Group launched regular delivery service for health and nursing care products covering five main items in August 2019, and regular delivery service for packing materials in January 2020. We will continue striving to enhance services that can contribute to labor savings in operations at busy workplaces through the use of new technologies.

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Net sales in the B-to-B business as a whole amounted to 246,964 million yen, an increase of 12,554 million yen, or up 5.4% year-on-year, due to factors including the last-minute surge in demand before the consumption tax increase and a sudden growth in demand for health care products, etc., to protect against novel coronavirus infection.

In the B-to-C business, we steadily promoted the shift to E-commerce with unique values in the LOHACO business. Regarding our efforts to promote products with unique values, we started sales of LOHACO BREAD, created through a joint project with a bread manufacturer with carefully selected ingredients and bread making process, in September 2019. In addition, we held "Fitting Our Lifestyles LOHACO Exhibition 2019" in October 2019, featuring new products provided by 45 participant companies, centering on large makers, with unique designs exclusive to the LOHACO marketplace, with sustainability as a new theme, and the event was favorably received by visitors.

In October 2019, we opened a LOHACO store on the PayPay Mall, launched by Yahoo Japan Corporation (a subsidiary of Z Holdings Corporation), which has led to the acquisition of new customers.

As a result, sales in the LOHACO business stood at 35,320 million yen, a decrease of 3,575 million yen, or down 9.2% year-on-year. Net sales in the B-to-C business as a whole amounted to 46,565 million yen, a decrease of 2,769 million yen, or down 5.6% year-on-year. On the profit front, there was an increase in fee income, such as advertising fee income, and the effect of the increase in the number of items purchased following the revision of the free shipping charge in January 2019, and the structural reform, such as the one-box eco service launched in July, 2019, started to show. As a result, profit improvement is steadily proceeding with an increase in gross profit margin, combined with a decline in the ratio of delivery charges to net sales.

As a result, net sales in the E-commerce business, combining the two businesses above, stood at 293,529 million yen, an increase of 3.4% year-on-year. The amount of gross profit-net came to 70,256 million yen, a 4.2% increase year-on-year, mainly due to a rise in sales of office amenities, MRO supplies, and others, as well as other factors, including the expansion of the range of original products with high profitability and improvement in gross profit margin of the LOHACO business.

Selling, general and administrative expenses stood at 63,840 million yen, a decline of 1.2% year-on-year. The major factors behind the decline were a fall in the ratio of delivery charges to net sales, as mentioned above, and a decrease in depreciation as a result of recording an impairment loss on non-current assets of ASKUL Value Center Hidaka in the preceding fiscal year. As a consequence, operating profit amounted to 6,415 million yen, an increase of 128.3% year-on-year.

<Logistics Business>

Sales in the Asset Management Business for the logistics facilities of Eco Properties Corporation increased, which led to a significant improvement in operating profit and loss. Meanwhile, selling, general and administrative expenses increased as upfront expenses, such as rent, of 223 million yen were incurred for the preparation period of a new project contracted to start from the next fiscal year.

As a result, the Logistics Business posted net sales of 5,313 million yen, an increase of 28.3% year-on-year, and operating loss of 108 million yen (operating loss of 401 million yen for the same period in the preceding fiscal year).

<Other>

Net sales of Tsumagoimeisui Corporation were roughly at the same level as the same period in the preceding fiscal year.

Consequently, net sales in the Other segment stood at 1,009 million yen, a 3.9% increase year-on-year, and operating profit amounted to 50 million yen, a 33.9% increase year-on-year.

Notes: 1. A service in which the number of items per purchase unit is reduced and lower prices are offered for applicable beverage products, such as bottled water and tea, with free shipping charges applicable to orders of beverages up to a total of 18 kg per case unit. Promoting purchases that use up the weight limit per case unit by bundling various beverage products will lead to a decrease in the ratio of delivery charges to net sales, while reducing the burden of delivering packages at the same time.

2 MRO is an acronym for Maintenance, Repair and Operations, and the term "MRO supplies" denotes indirect materials including consumables and repair supplies for use in factories, construction sites, and other workplaces.

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(2) Explanation of Financial Position

(Assets)

Total assets stood at 173,818 million yen at the end of the period under review, an increase of 4,706 million yen from the end of the preceding fiscal year. The primary factors behind the increase were increases of 2,900 million yen in notes and accounts receivable-trade and 1,360 million yen in cash and deposits. The primary factor behind the decrease was a decrease of 1,290 million yen in leased assets.

(Liabilities)

Total liabilities stood at 122,624 million yen at the end of the period under review, an increase of 2,143 million yen from the end of the preceding fiscal year. The primary factor behind the increase was an increase of 5,432 million yen in notes and accounts payable-trade. The primary factors behind the decline were decreases of 1,431 million yen in long-term borrowings, 1,323 million yen in electronically recorded obligations-operating, and 1,316 million yen in long-term lease obligations.

(Net assets)

Net assets stood at 51,194 million yen at the end of the period under review, an increase of 2,562 million yen from the end of the preceding fiscal year. The primary factor behind the increase was an increase of 2,228 million yen in retained earnings due to profit attributable to owners of parent of 4,116 million yen despite dividend payments of 1,887 million yen.

Consequently, the capital adequacy ratio stood at 29.3% (28.6% at the end of the preceding fiscal year).

(3) Explanation of Consolidated Forecasts and Other Forward-Looking Information

The ASKUL Group's consolidated earnings for the nine-month period under review exceeded the period-start plan. However, no revision has been made to the consolidated forecasts announced on July 3, 2019, since the potential impact of the novel coronavirus outbreak is unclear.

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2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of May 20,2019	As of February 20,2020
Assets		
Current assets		
Cash and deposits	57,469	58,829
Notes and accounts receivable - trade	42,189	45,090
Merchandise and finished goods	15,766	16,535
Raw materials and supplies	342	248
Costs on construction contracts in progress	72	58
Accounts receivable - other	8,733	9,213
Other	1,230	1,474
Allowance for doubtful accounts	(12)	(22)
Total current assets	125,792	131,427
Non-current assets		
Property, plant and equipment		
Buildings and structures	7,778	8,266
Accumulated depreciation	(2,719)	(3,033)
Buildings and structures, net	5,058	5,232
Land	136	137
Leased assets	18,714	18,773
Accumulated depreciation	(4,591)	(5,940)
Leased assets, net	14,122	12,832
Other	9,448	10,054
Accumulated depreciation	(6,392)	(6,890)
Other, net	3,056	3,164
Construction in progress	50	37
Total property, plant and equipment	22,424	21,404
Intangible assets		
Software	6,722	7,311
Software in progress	1,221	1,043
Goodwill	1,889	1,618
Other	13	8
Total intangible assets	9,847	9,981
Investments and other assets		
Investment securities	606	688
Deferred tax assets	3,967	3,766
Other	6,564	6,648
Allowance for doubtful accounts	(91)	(98)
Total investments and other assets	11,047	11,004
Total non-current assets	43,319	42,390
Total assets	169,112	173,818

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(Million yen)

	As of May 20,2019	As of February 20,2020
Liabilities		
Current liabilities		
Notes and accounts payable - trade	46,272	51,705
Electronically recorded obligations - operating	20,088	18,765
Short-term borrowings	380	380
Current portion of long-term borrowings	2,184	2,352
Accounts payable - other	9,340	10,313
Income taxes payable	1,100	1,030
Accrued consumption taxes	1,074	882
Provisions	779	654
Other	3,368	3,183
Total current liabilities	84,590	89,266
Non-current liabilities		
Long-term borrowings	14,646	13,214
Lease obligations	13,060	11,744
Retirement benefit liability	3,477	3,699
Asset retirement obligations	2,346	2,432
Other	2,358	2,266
Total non-current liabilities	35,889	33,357
Total liabilities	120,480	122,624
Net assets		
Shareholders' equity		
Share capital	21,189	21,189
Capital surplus	24,061	24,224
Retained earnings	19,972	22,201
Treasury shares	(16,788)	(16,727)
Total shareholders' equity	48,435	50,887
Accumulated other comprehensive income		
Deferred gains or losses on hedges	(1)	(0)
Foreign currency translation adjustment	28	27
Remeasurements of defined benefit plans	(69)	(52)
Total accumulated other comprehensive income	(42)	(25)
Share acquisition rights	18	9
Non-controlling interests	220	321
Total net assets	48,631	51,194
Total liabilities and net assets	169,112	173,818

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(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (For the nine months)

(Million yen)

	For the nine months ended February 20,2019	For the nine months ended February 20,2020
Net sales	288,508	299,439
Cost of sales	220,387	228,436
Gross profit	68,120	71,002
Reversal of provision for sales returns	39	26
Provision for sales returns	34	26
Gross profit - net	68,125	71,002
Selling, general and administrative expenses	65,694	64,666
Operating profit	2,431	6,335
Non-operating income		
Interest income	20	20
Rental income	90	213
Other	81	134
Total non-operating income	192	368
Non-operating expenses		
Interest expenses	193	189
Rental expenses	83	217
Other	25	48
Total non-operating expenses	301	455
Ordinary profit	2,322	6,248
Extraordinary income		
Gain on donation of non-current assets	30	-
Other	2	-
Total extraordinary income	33	-
Extraordinary losses		
Impairment loss	26	10
Loss on retirement of non-current assets	63	115
Loss on retirement of treasury subscription rights to shares	-	29
Other	26	-
Total extraordinary losses	116	155
Profit before income taxes	2,239	6,093
Income taxes - current	1,023	1,785
Income taxes - deferred	55	205
Total income taxes	1,078	1,991
Profit	1,160	4,101
Profit (loss) attributable to non-controlling interests	44	(14)
Profit attributable to owners of parent	1,115	4,116

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Quarterly Consolidated Statements of Comprehensive Income (For the nine months)

(Million yen)

	For the nine months ended February 20,2019	For the nine months ended February 20,2020
Profit	1,160	4,101
Other comprehensive income		
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustment	(4)	(1)
Remeasurements of defined benefit plans, net of tax	14	17
Total other comprehensive income	10	17
Comprehensive income	1,171	4,119
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,127	4,134
Comprehensive income attributable to non-controlling interests	44	(14)

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(3) Notes to Consolidated Financial Statements

(Notes to Going Concern Assumption)

Not applicable.

(Notes to Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Accounting Estimates)

(Changes in useful lives)

During the third quarter under review, we reexamined the functions of some logistics centers and reduced the useful lives of machinery and equipment, etc., that have a short useful life, and made such change applicable into the future.

The impact of such changes on operating profit, ordinary profit, and profit before income taxes for the nine-month period under review is insignificant.

(Segment Information, etc.)

[Segment Information]

I First Nine Months of the Fiscal Year Ended May 2019 (May 21, 2018, through February 20, 2019)

Information on net sales and income (loss) by reporting segment

(Unit: Million yen)

	Reporting Segment			Other (Note 1)	Total	Adjustments (Note 2)	Amount reported in the consolidated statements of income (Note 3)
	E- commerce business	Logistics business	Subtotal				
Net sales							
Sales to external customers	283,744	4,142	287,886	622	288,508	—	288,508
Intra-segment sales or transfers	—	—	—	349	349	(349)	—
Total	283,744	4,142	287,886	972	288,858	(349)	288,508
Segment income (loss)	2,810	(401)	2,408	37	2,446	(14)	2,431

Notes: 1 "Other" represents business segments that do not fall under the Reporting Segment and includes the manufacturing business.

2 The adjustment of minus 14 million yen to segment income represents the elimination of inter-segment transactions.

3 Segment income is adjusted with the operating profit reported in the consolidated statements of income.

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II First Nine Months of the Fiscal Year Ending May 2020 (May 21, 2019, through February 20, 2020)

1. Information on net sales and income (loss) by reporting segment

(Unit: Million yen)

	Reporting Segment			Other (Note 1)	Total	Adjustments (Note 2)	Amount reported in the consolidated statements of income (Note 3)
	E- commerce business	Logistics business	Subtotal				
Net sales							
Sales to external customers	293,529	5,313	298,843	595	299,439	—	299,439
Intra-segment sales or transfers	—	—	—	413	413	(413)	—
Total	293,529	5,313	298,843	1,009	299,852	(413)	299,439
Segment income (loss)	6,415	(108)	6,307	50	6,357	(21)	6,335

Notes: 1 "Other" represents business segments that do not fall under the Reporting Segment and includes the manufacturing business.

2 The adjustment of minus 21 million yen to segment income represents the elimination of inter-segment transactions.

3 Segment income is adjusted with the operating profit reported in the consolidated statements of income.

3. Other

(1) Changes in Officers

(Effective March 13, 2020)

(i) Change in Representative

Not applicable.

(ii) Change in other Officers

Newly appointed Directors

Director: Yumiko Ichige (Outside Director)

Director: Genri Goto (Outside Director)

Director: Iwao Taka (Outside Director)

Director: Kazuo Tsukahara (Outside Director)

(Note) These four new Directors are independent outside directors.

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(2) Details of Selling, General and Administrative Expenses (Consolidated)

Item	First Nine Months of the Fiscal Year Ended May 2019 (May 21, 2018, through February 20, 2019)		First Nine Months of the Fiscal Year Ending May 2020 (May 21, 2019, through February 20, 2020)			(Reference) Fiscal Year Ended May 2019 (May 21, 2018, through May 20, 2019)	
	Amount (million yen)	Ratio to Sales (%)	Amount (million yen)	Ratio to Sales (%)	Year-on-Year Change (%)	Amount (million yen)	Ratio to Sales (%)
Personnel expenses	15,157	5.3	15,488	5.2	102.2	20,242	5.2
Shipment expenses *1	18,218	6.3	17,019	5.7	93.4	23,912	6.2
Provision for sales promotion expenses	403	0.1	400	0.1	99.3	537	0.1
Subcontract expenses	2,637	0.9	2,726	0.9	103.4	3,548	0.9
Business consignment expenses	8,267	2.9	8,135	2.7	98.4	10,939	2.8
Rents	7,210	2.5	7,188	2.4	99.7	9,595	2.5
Provision of allowance for doubtful accounts	17	0.0	28	0.0	164.9	24	0.0
Depreciation *2	2,697	0.9	2,225	0.7	82.5	3,590	0.9
Amortization of software *3	1,379	0.5	1,752	0.6	127.0	1,882	0.5
Other expenses	9,703	3.4	9,699	3.3	100.0	12,812	3.4
Total	65,694	22.8	64,666	21.6	98.4	87,085	22.5

*1 Delivery expenses for the period under review decreased from the same period in the preceding fiscal year. This was mainly due to the decline in the ratio of delivery charges to net sales resulting from the effects of customers shopping around following the revision of the free shipping charge and the launch of the one-box eco service.

*2 Depreciation for the period under review decreased from the same period in the preceding fiscal year. This was mainly due to the recording of impairment loss on non-current assets of ASKUL Value Center Hidaka at the end of the preceding fiscal year.

*3 Amortization of software for the period under review increased from the same period in the preceding fiscal year. This was mainly due to the launch of a new product database.